RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 19, 1995 **LETTER 1178**

THE PICTURE: Robert Rhea, the great Dow Theorist of the 1930s, was not only the most widely-followed market analyst of his day, he was also quite a market philosopher and observer. In a wildly-climbing market (comparable to the one we have been in) Rhea noted that "every 10 points higher in the Dow is 10 points nearer the final top."

Rhea's philosophy hardly jibes with what we hear today. The higher this uncorrected stock market climbs, the more bullish the analysts become and the more optimistic their predictions. The July 3 *Barron's* featured a piece about an analyst who predicts "7000 on the Dow." Another analyst (*WSJ*) predicts "10,000 by year 2000." The cover story on the latest copy of *Forbes* magazine features **"The World's 10 Richest People."** The July 6 *USA Today* blared on its front page, "Cream of the Stock Mutual Funds" and listed "Top Funds in 16 Categories." I mean are these the best of times or what!

Russell suggestion: as a brokerage house analyst, if you want a car-load of free publicity here's my suggestion: write a treatise on "why dividends no longer mean anything" or if that seems too difficult, try a punchy piece entitled "Dow 10,000 in 1996."

STREET TALK

Bullish forecasts plot lengthy rise

NEW YORK — The thought of putting money in the stock market at record levels may leave you ill. But fear not. Wall Street has some medicine. Just think long term. Stocks have risen so far so fast that even novice investors

Fasten Your Seat Belts For Dow 7000

▶ ROBERT JAMES WALLER, MEET RALPH Acampora. He, too, is an author of a slender romance likely to invite equal measures of praise and scorn. His volume's more precocious than precious, and deals not with bridges, but with Bridge Systems. Nonetheless, like

How your 401(k) can MAKE YOU RICH

OK, let's get serious. The stock market has had "the bit in its teeth" while putting on a once in a decade (or two or three decades) show. The bulls are roaring, new analysts are announcing fresh lists of "stocks to buy," mutual funds are raking in billions of dollars monthly, new hedge funds are blossoming, short-sellers are running for the hills, and veteran market observers are shaking their heads in amazement. This is a market that's been feeding on itself, and the feeding has evolved into a frenzy. In fact, the frenzy is now rubbing off on global stock markets, and with interest rates declining worldwide, markets everywhere have headed higher. The whole situation is turning into the "party of the century."

As a young man back in 1958 in NYC I used to frequent the boardrooms. During the explosive up-year of 1958 I asked one crusty old-timer why, in his opinion, stocks were surging higher day after day. He looked at me with palsied eyes and replied, "More buyers than sellers." Which was just another way of describing the forces of supply and demand.

Actually, there are some serious fundamentals that have been fueling this market (and, I might add, world markets as well). The most important fundamentals are the global slow-down (or call it pause) in business and the decline in the growth of world money supply. This has given way to another crucial phenomenon -- the **global trend to lower interest rates.** The lower rates, in turn, constitute bullish pressure on world stock and bond markets.

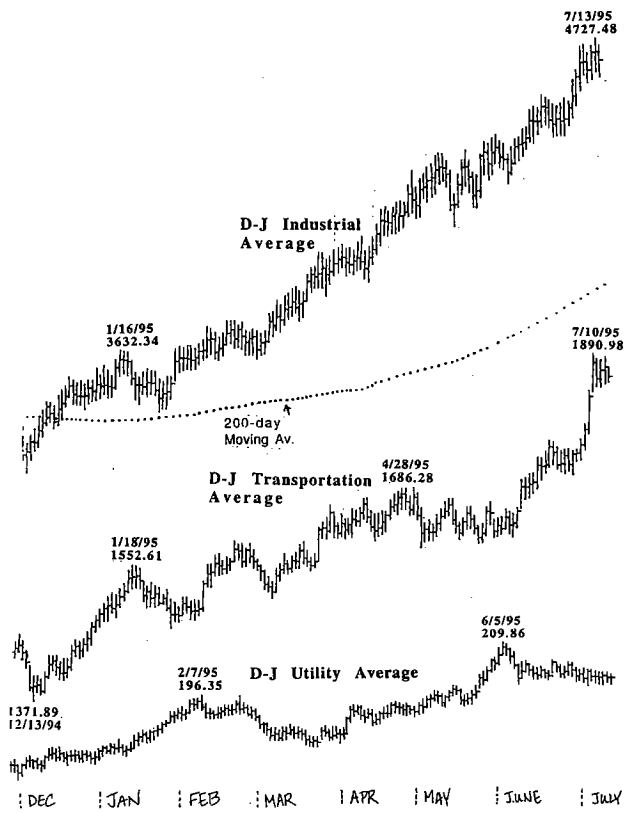
July 7 DJIA 4702.73; PTI 4202; A-D Ratio -4.21
July 14 DJIA 4708.82; PTI 4206; A-D Ratio -4.16
Dow Yield: 2.36%; Dow Price/Earnings: 15.6
Dow 200-day MA: 4078; Dow 30-day MA: 4561
Dow Times Book Value: 4.21; PTI 89-day MA: 4113
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 384.82; Gold-PTI: 734

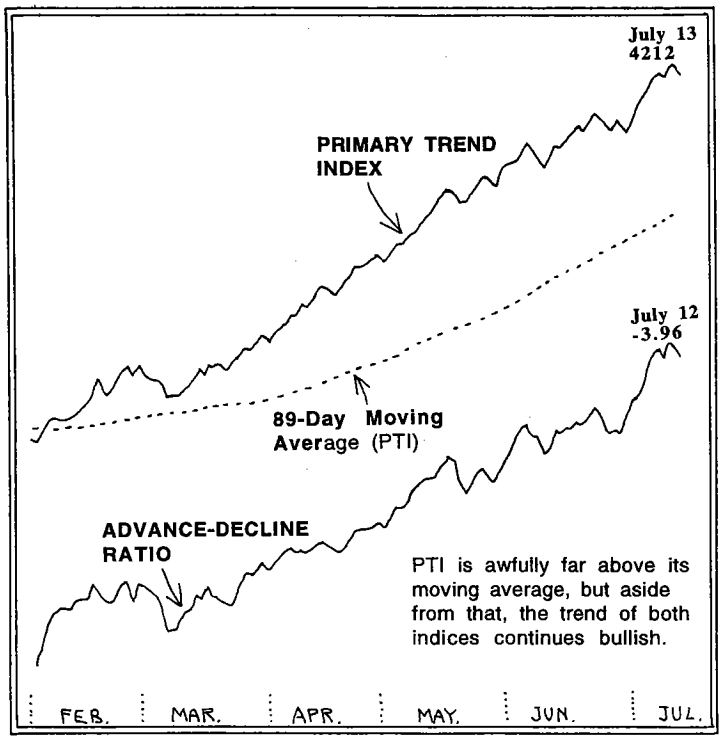
It's obvious that time-tested methods of "prediction" are not working here in 1995. When a market climbs heavenward for seven consecutive months without so much as a 3% correction, you're dealing with a market that's been thumbing its nose at normal predictive methods.

When that same market is overvalued by historic measurements and that market simply becomes more overvalued as it continues to climb, you had better just monitor it rather than try to forecast its duration or extent.

For monitoring purposes, I know nothing better than (1) a close study of the Averages and (2) following my Primary Trend Index (PTI).

The **outstanding event** of last week was that the **D-J Transportations** finally bettered its 1994 high of 1862.29. That move **confirmed** the successive new highs in the Dow. And it told us with certainty that all the 1994-95 action was part of one **continuing bull market.** That confirmation told us that the primary trend of the market is up, and it has been up ever since late-1974.





Is the 1995 action fated to be the final advance in the bull market? The truth -- there's no way of knowing. My instinct says that it is, and that wherever this explosive advance ends will mark the bitter end of the great bull market. But, of course, that's just my instinct and my guess, and as veteran subscribers know, I've guessed wrong (gulp) a few times in the past.

The rise since December has been almost parabolic in character -- in other words, almost straight up. Obviously, no one knows where this sky-rocket advance is fated to end, but I'm thinking (based on experience with this kind of market in the past) that when this market stalls and turns down, we will have seen a major top. Furthermore, I would expect the decline (when it finally arrives) to be somewhat of a mirror-image of the preceding rise. That is, the decline should be precipitous and as persistent as was the 1994-95 advance.

But there's no sense dwelling on the possible character of the next decline. Let's deal with what's been happening -- the advance. So far, everything's been "in gear" on the upside. The Industrial Average has been probing new all-time highs, the Transports have finally confirmed, the advance-decline ratio has been hitting new highs, and the PTI has been rising to new record highs. Daily new highs on the NYSE have pushed above 300 for the first time this year.

Conclusion: The primary trend of the stock market is bullish and will continue bullish *until proved otherwise*. A word about the Transportation Average's confirmation: this is *not* a "buy signal." That confirmation simply tells us that (under Dow Theory) the bull market is still intact. But remember, each re-confirmation in a bull market possesses *less authority than the previous one* -- until finally there is a re-confirmation which will be the last one -- prior to the advent of the next primary bear market.

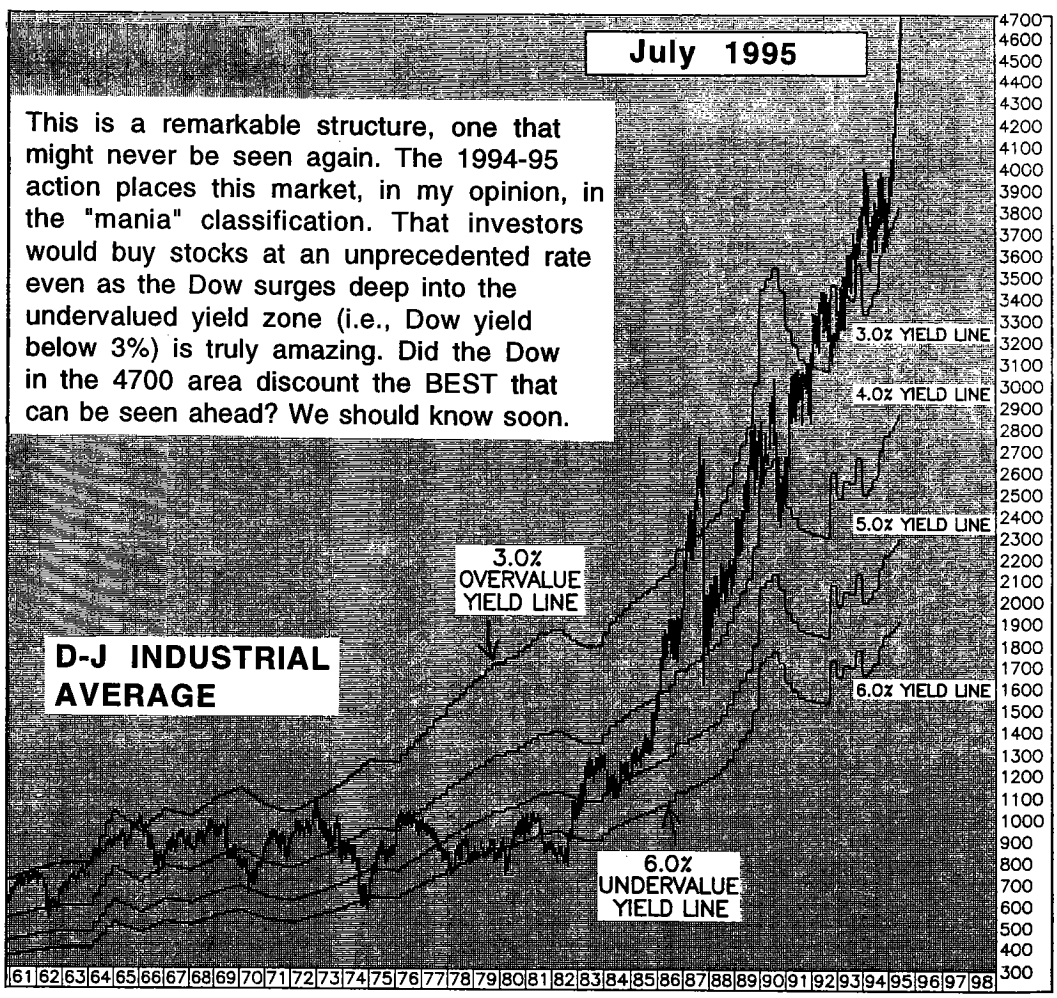
Confirmation?: A lot of observers believe that you must have a decisive, even dramatic, non-confirmation in the Averages in order to signal the end of a bull market. Not so at all. Here are some examples of what I mean. On September 3, 1929, both the D-J Industrials and Rails hit **simultaneous highs**, the Industrials at 381.17, the Rails at 189.11. That's where the great bull market ended, and that's when the great bear market started.

Again the Dow hit a high of 194.40 on March 10, 1937. **Five trading days later** the Rails hit a high of 64.46. So ended that great 1932-37 bull market.

On February 9, 1966 the Dow hit a high of 995.15. **Four days later** the Transports hit a high of 271.72. That spelled "finis" for the spectacular 1949-66 bull market.

Divisors: Joe Granville and I have stressed the fact that the Dow divisor (which adjusts for splits and stock dividends) is now at a minuscule 0.36. In 1929 the divisor was 10.47. In 1957 it was 4.57. Examples: in 1929 it required a 10.47 point rise in a Dow stock to move the Dow up one point. Today a move of only 3/8 of a point moves the Dow up one point. Today a move of 1 point in GM or DIS changes the Dow by 2.8 points. Quite a difference.

Notes: Faith in professional management via mutual funds has now reached once-in-a-lifetime levels of super-confidence. As a matter of interest, it is estimated that almost 80% of all mutual fund assets have come in during the 1990s or during the last five years. The startling fact is that these late mutual fund buyers have never experienced even a minor market correction. The last correction of



10% or more occurred during late 1990, and that correction is now obviously forgotten. With $8 to $10 billion in additional money coming into the funds monthly, it's clear that the public has totally lost its fear of any potential losses. "Buy 'em and put 'em away" is the sentiment of the day. Add a dash of "this time it's different," and you have a fascinating mixture, one that is guaranteed to put the lessons of history to the test.

INVESTMENT POSITION: Belatedly, I put the bull in the box. Why did I put him in? I reinstated him because of the July 10 surge of the Transports above their 1994 high of 1862.29. By the Transport action, the bull market's been confirmed. That's no guarantee that the Dow will go to 6000 or 7000 or even 4900, it simply tells us that all the action up to now has been part of one continuing bull market. The confirmation eliminates one area of doubt, at least as far as Dow Theorists are concerned.

For years I've been publishing on page 1 the "Percentage of Undervalued Blue Chip Stocks" as tabulated twice monthly by La Jolla's own *Investment Quality Trends* service. This outfit monitors 350 blue-chip, dividend paying stocks, and it classifies each stock on the basis of the historical swing of its dividend yield. Example: Melville Corp. historically has swung between a 5% dividend yield (where the stock was classified as undervalued) and a 2.2% dividend yield (where it was classified as overvalued).

Writes *IQ Trends* in its latest report, *"The blue-chip verifier charts the percentage of Undervalued stocks recorded in each issue of IQ Trends since the verifier was founded in April, 1966. Major market bottoms occur when the number of Undervalued stocks is between 70% and 80%. Major tops occur when the figure falls below 20%. In the First July 1995 issue, that number dropped to* ***5% -- the lowest such figure in our 29-year history.***"

So what is there to say? Here this venerable outfit is telling us that stocks are the most overvalued they've been in the last 29 years. In view of that, what do we do -- **buy, sell or sit tight?** My advice -- if you're not in the stock market now, do nothing. If you own stocks, sit tight and enjoy the ride -- until the first signs of trouble via the Averages or the PTI. If you can't decide what to do, ask yourself this -- "Do I want to chase the most expensive market in history?" Only you can come up with the answer to that one. Finally, a piece of advice -- avoid greed. **This is the area where greed kills.** If you feel yourself becoming greedy, find a comfortable couch, lie down, and wait until the feeling passes away.

THE SPIKE: On page 2 is a chart I just couldn't resist publishing (chart is courtesy of *Investment Quality Trends* in La Jolla). Here we see the path of the Dow (monthly) from 1974, the point where I believe the entire bull market started, to its current level. The four thin black lines denote different yield levels for the Dow -- from an undervalued yield of 6% to an overvalued yield of 3%.

As a matter of interest, note that only three times in the last 30 years has the Dow sunk into the undervalued zone. These instances were 1974, 1980, and most recently 1982.

During 1987 the Dow surged well above and out of the 3% overvalued zone. A few months later, in August '87, the stock market crashed with the Dow down over 500 points in a single day.

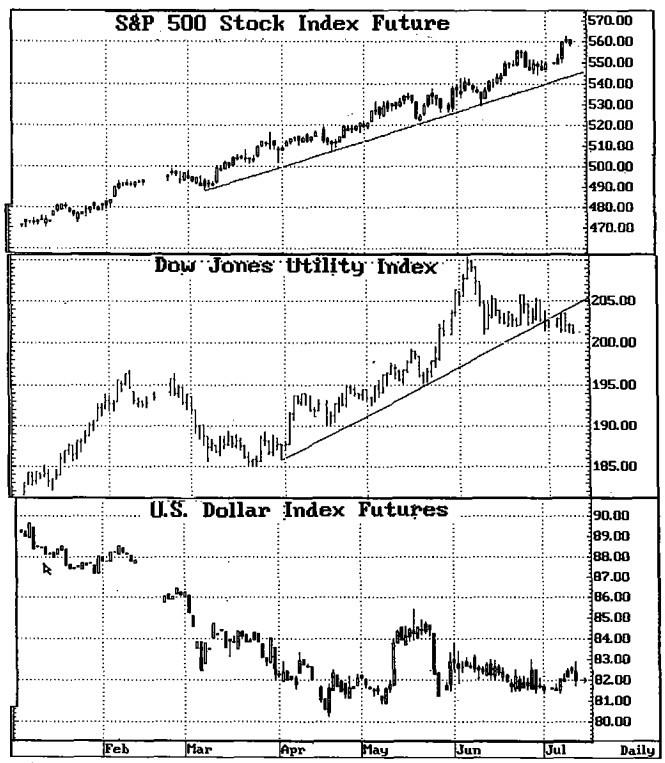
In 1992 the Dow again rallied above the overvalued 3% zone, where it has been there ever since. Last week the Dow surged to the point where the yield was an historic low of 2.38%. From a price action standpoint, the most recent seven months of price movement shows up dramatically on the chart. In fact, they show *as a nearly vertical spike.*

Never in stock market history has the Dow pushed this far above its 3% overvalued line. This is truly a fascinating situation, and its conclusion could very well make history.

PRICE ACTION: The first chart shows the perfect rising trendline that the S&P 500 Composite (futures) has been climbing. As things stand, it would take a break below 545 to turn this extraordinary trend to the downside.

The second chart shows the Utility Average breaking below a four-month rising trendline. Since the Utilities are often leaders (although the lead-time can be lengthy), this is something worth watching.

The third chart shows the Dollar Index, and here we have a picture of indecisiveness. My own feeling is that the Dollar is just in a trading range with a move above 84 bullish for the buck and a break to 80 bearish. So far, meaningless fluctuations and lots of rumors.



NOTES & QUOTES: I'm receiving more mail from subscribers than ever before, often four to eight letters a day. Honest, I read every letter and all material (often very valuable) sent to me, but most of the time I don't or cannot answer these letters (it takes a lot of energy to answer a letter conscientiously and intelligently). But rest assured I appreciate the correspondence, and I do read everything sent to me (often a pamphlet or a book). Many thanks again, and don't think that just because you don't receive a reply that I'm not appreciative -- because I AM.

* *

With all the talk about cutting expenses, here are some facts. Latest figure on the national debt is $4.929 trillion. Exactly one year ago the figure was $4.627. Therefore, the one year addition to the national debt = $302 billion (a new high for 1995) and almost one billion dollars a day. No currency (long term) can hold up in the face of this kind of debt build-up. Another amazing figure: over the last 12 months foreigners bought 45% of all newly issued US Treasury debt. Ultimately, either the US will face severe recession as it is forced to cut back on its billion dollar a day deficit habit -- or the dollar will cave in as the government, in desperation, turns to INFLATING the debt away. Regardless, the hard fact is this -- the

US continues to generate massive debts despite the denials of Washington.

In my experience, here are the two hardest things in the world to find. (1) The correct **information** on any given subject, and I mean the **correct** information (I don't care whether it's the best treatment for a given disease or what's wrong with your car's engine). (2) And the second, to **get anyone to do what they say they're going to do.** Believe me, this is tough. Over and over again I have found that I can't get people to do what they promise or what they contract to do. When you find someone who absolutely, without fail, does what he says he will do, hang on to him -- he's a rare gem.

* *

I just took chelation (key-lation) treatment number 44. I continue to receive letters from subscribers who have benefited from chelation. At my last session I talked to a fellow (he's an engineer and was a engineer-tester for the first Apollo flight). Fifteen years ago this fellow had chest pains (angina). His doctor put him through tests and told him he needed an immediate by-pass. He said "No," and elected instead to go for chelation treatments. The fellow's now on his 63rd treatment, never had a by-pass, and appears to be in good shape. Chelation entails intra-venous injections of the chemical EDTA (each session takes about three hours). I've been doing this monthly now for the last year, and my angina pains have about disappeared (note: despite a quintuple by-pass, I used to have angina pains every few weeks or so). If you have heart trouble you might look into chelation. Books on chelation are available at most health food stores. By the way -- don't waste your time asking your doctor about chelation. Although your doc's probably had no personal experience with chelation, he'll almost surely pooh-pooh it (at least until it's officially approved by the FDA or the AMA). There's no patent on EDTA, which means no drug company makes any real money on it. Therefore, who's going to put up the money to test it? Where are the insurance companies, who now pay out billions for by-pass operations? Why don't they test it? Damned if I know.

* *

The July 3 *WSJ* reported another possible violation having to do with 39-year-old Ken Ahrens, a trader with First Capital Strategists of York, Pa. The firm's client, The Common Fund, accused Ahrens of "not hedging his portfolio" over a period of three years, an omission that resulted in an estimated $128 million in unrealized capital losses. **Russell comment:** What fascinated me was that these "discrepancies" went unnoticed for three years. The answer is that in the world of commodities and derivatives, many of the supposed supervisors and overseers don't know what it's all about, and therefore don't really understand what their traders are doing. It probably works like this, the trader has been with the firm for quite a while and so has his boss. The boss is thinking, "Personally, I can't follow the trader's transaction. But the kid is smart and seems to know what he's doing. So I'll leave him alone and let him do his thing. What the hell, he's been making money for the firm."

* *

What's wrong with the current income tax system? (1) It's unfair in that it punishes financial success. (2) It's complex and costs billions in both man hours and dollars to comply with. (3) It discourages savings and encourages borrowing. (4) It doesn't reach the huge underground. The question is whether our pusillanimous pols will do anything about it? The "new" President Clinton (always here with the latest) has directed the National Economic Council to oversee an evaluation of a wide array of options, including (surprise?) a national sales tax (the sales tax has long been considered "off limits" for Democrats). Of course, politics are the big consideration when it comes to taxes. Many Dem leaders consider changing the tax system a "political minefield," so don't bet that anything intelligent will be done on taxes unless we get a Republican president.

* *

Michael Bloomberg spent two years running Salomon's technical department. But when disagreements came up, Bloomberg was forced out of Salomon. That was in 1981. So with $20 million in cash and stock, Bloomberg started a new information and trading system for Wall Street. He proved that he knew what he was doing. Some 50,000 of his terminals (known as Bloombergs) now sit on brokers' desks in the US and around the world. Bloomberg owns 70% of the company, and his worth is estimated to be around $1.2 billion. The Bloomberg TV channel is also available, with its excellent market oriented news (we use it here). Bloomberg employs 2,000 people and the company's gross is estimated to be around $700 million. In fact, Bloomberg as a company is worth just about what Salomon Bros. is worth. Says Bloomberg, "I don't have a private office. No one here has a private office. There are no secretaries to get in the way, there are no titles to get in the way. Everyone shares in the revenues of the company."

* *

What's the real story on debt? It's revealed in the "new" science of "generational accounting." This measures in present-value terms how much money people born in any given year can expect to pay the government over their lifetimes and how much they can expect to get back -- if present tax and spending policies continues. Unlike budget accounting, generational accounting measures exactly the financial impact of federal promises to make future payments such as Social Security and Medicare.

This accounting spits out a single number. For instance, Americans born in 1930 will make net payments as a percentage of income of 30%. For boomers born in 1950, the number is 33%. But get this -- for future generations, the number will reach an impossible 84%. Conclusion: we must spend less and pay more or the whole system will collapse. On generational accounting, even the new Republican plans don't look that great. For instance, Senate Budget Committee Chairman Dominici's plan is supposed to balance the budget by 2002. On generational accounting, it would only reduce future generation's net payments to 73%, rather than 84%. The biggest culprits are Medicare and Medicaid. If we stabilize these two at current levels (something no politician is even talking about) then by generational accounting the lifetime payments of future generations would still be 51% of earnings. **Russell conclusion:** ALL government plans and services should be fully funded. And if the cost of funding them is too much, they shouldn't be instituted in the first place.

* *

Fed Up: From 1980 to 1990 salaries of public employees increased six times more than pay in private industry, according to Americans for Tax Reform Foundation. The Foundation also stated that at present 18.7 million Americans have government jobs at all levels, but it only takes 18.1 million private sector jobs to produce *all* US manufactured goods. Finally, the Foundation says that Americans worked from January 1, 1995 to the second week in July this year to pay for all the costs of government. July 9 marked the Cost of Government Day this year. The Cost of Government Day includes the cost of all government mandates and regulations. Working half the year to pay for all government taxes, mandates and regulation is obviously a ridiculous burden for Americans. I firmly believe that the Democrats were swept out of office because of this situation. Consciously or unconsciously, voters figured that anything was better than what the Democrats were providing. Bill Clinton represents BIG government in the minds of most Americans. Clinton has obviously sensed that, which is why he has rushed towards the "center," and why he belatedly jumped on the Republican bandwagon in announcing that he had his own plan for eliminating the federal deficit.

* *

JAPAN: *Business Week* (July 10) states that Japan may be overvaluing its assets by a whopping $7.7 trillion. Japanese commercial property has already dropped by 50%, which has wiped out $15 trillion in national wealth. The Japanese banks have been allowed to include equity profits as part of their capitalization. But the estimate is that if the Nikkei drops below 14,000, Japanese banks will start to go under water on their equity investments. And these equities are included, as I said, in bank capitalization. On top of this, the Japanese are suffering an estimated $785 billion in equity and bond losses.

* *

I've written about Samsung before. This is the giant S. Korean conglomerate that is obsessed with beating Japan. Samsung is already a huge producer of memory chips, but the company has

diversified into all areas of electronics. And the strong yen is allowing Samsung to undercut the Japanese in prices. The company aims to dominate the world in cellular phones, personal digital assistants and all kinds of multimedia gear. In the last year Samsung has either acquired or taken equity positions in six companies, including a cad/cam software company, a personal computer company, a digital processor and an optical semiconductor company. Watch Samsung -- they are aiming to take over the electronic world, and you know something -- they just might do it.

* *

Prices for sports franchises continue to climb into the stratosphere. The lowly Tampa Bay Bucs (football) were just bought by Florida businessman Malcolm Glazier for $192 million, the highest price ever paid for a NFL team . . . And speaking of sports, Pete Sampras won $584,000 at Wimbledon for beating Boris Becker; Boris got $294,000. My son-in-law, a former pro tennis player, claims that tennis is the "toughest sport," because it's the only sport where a person will quit at the top of his game (because of the pressure). Personally, I consider boxing one of the toughest sports (it's the only sport where the other guy is trying to knock the other fellow senseless). I also consider track's Michael Johnson one of the greatest pure athletes of all time (could win an unprecedented 200 and 400 double in the Olympics). Another incredible present day athlete -- Algerian Noureddine Morceli, who now holds world records in the 1,500, the mile, the 2,000 and the 3,000. Last week Morceli beat USA Steve Holman in the 1,500 in world record time in Nice, France. Said Holman: "The 3:27 time is ludicrous. I thought his mile record was the most incredible thing I'd ever seen, but this tops that."

* *

Older subscribers must be well aware of my disgust with the "legal tender" stuff that the US government calls money. Imagine this -- you and I buy an island, and we call our island "Nirvana-land." We start our own central bank and issue "money." We call our new money "nirvanas," and we issue an edict that states that this new money is legal tender for all payments and debts in Nirvana-land. Hey, is this a great idea? The only problem -- the US is a big country and the world accepts its dollars, whereas Nirvana-land is a tiny nation and the world might not accept Nirvanas. But either way, we're both issuing junk legal tender "money." Intrinsically, dollars and nirvanas are both worthless.

The US wants to issue a new metal dollar. The last metal dollar was the dopey Susan B. Anthony thing, a coin which almost replicated the quarter in size, thickness, weight and color. And I wonder, did the government hire special idiots to design the ill-fated Susan B? As it turned out the US public would have nothing to do with those absurd coins. **Russell suggestion:** Put out larger dollar coins and include one-350th of an ounce of gold in the metal mix of each coin. Make the coins gold in color. The public would probably accept something like this. Will it happen? Never.

* *

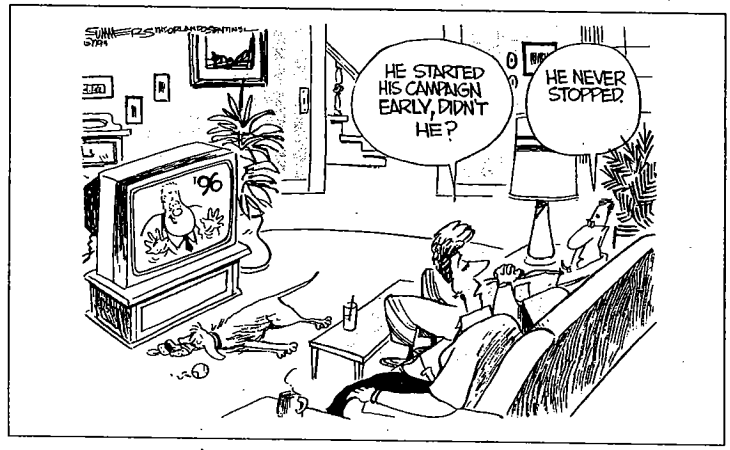
Despite the stock market's extraordinary climb, a large percentage of Americans are unhappy. A few weeks ago the Labor Department reported that real wages (inflation adjusted) are continuing to fall. For the lowest 10% of workers, the weekly real paycheck averaged $225 last year, a 10% drop since the 1970s. More people than ever are now working full time and still living below the official poverty line. Millions more are just scraping by, living just a hair above the poverty line (the poverty line is $15,141 for a family of four). The classic formula is that a family should pay 30% of its income for housing, but among the working poor closer to 70% now goes for housing. In other words, you can't pay rent and support kids on minimum wages. In comparison, during the depression of the 1930s my father earned $18,000 a year. We had two live-in maids, a nice apartment on the East side of NYC, and ate at a restaurant once a week (in those days, eating out was a luxury, unless you ate at the Automat). Adjusting for inflation, there's no way you could do that today, even on a $125,000 income (remember income taxes, state taxes, sales taxes, Social Sec. taxes, sky-high rents and expensive schools and food and medical). Yes, times have changed, and the average family, even with both spouses working, is struggling to keep its head above water. And on top of everything else, people are borrowing big time.

* *

The July 5 *NY Times* featured (surprisingly) a long article on one well-known tax protester. Significantly, on the same day the *WSJ* included a front page tax piece stating that *"Stiffer punishment lies ahead for many tax evaders. Tougher new federal sentencing guidelines already in effect will result in more jail sentences for many types of tax offenses . . . That includes claiming phony deductions, omitting taxable income and failing to file. Waiting for the IRS to nab you 'is outright foolish.' Those who come clean voluntarily generally won't be prosecuted, although they will owe interest and typically also penalties on unpaid taxes."* **Russell comment:** The resentment against high federal and state taxes continues to grow. The situation is growing increasingly ripe for either a flat tax or a national sales (consumption) tax. Will the pols have the nerve to bring about either? If a Republican president is elected in '96, I believe the answer could be "yes."

* *

President Clinton knows how to do only one thing -- campaign for office. Now Clinton's developed a new strategy, he'll run against himself. Here's his new look, and maybe his new speech. "Hey, Americans, remember that liberal wild and crazy guy that you elected, the one who thought good government meant more government? Remember his wonk wife with her nutty plans to change medical America? Well, voters, that's all history. Now I'm a Republican/Democrat. Me and the wife now want to balance the budget. We want to cut back on Medicare and Medicaid and we're pulling back on affirmative action. We may even want to cane bad boys and as for Hollywood and its disgusting filth, we're through with it. Barbra's no longer being invited to the White House. I'm the new Bill Clinton. A vote for me is a vote for a new change, which means changing the change that I used to want to change."



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Remember when the doctors pooh-poohed vitamins and supplements as unnecessary placebos, just a bunch of chemicals that produce "expensive urine" (a lot of physicians still think that way)? Now it turns out that high levels of an obscure amino acid called homocysteine can injure blood vessels, leading to atherosclerosis, heart attacks and strokes. But wait -- vitamin B6 or folic acid can reduce the levels of homocysteine in the blood. This remarkable discovery was made by Dr. Kilmer McCully now at the Univ. of Calif. at San Diego. Ironically, the good doctor first proposed the homocysteine thesis in 1969. He worked on his thesis for the next 10 years. In 1979 McCully's department chairman asked him to leave Harvard Medical School because his thesis "hadn't been proved." Ah how times have changed. Turns out Dr. McCully was right. Dr. Meier Stampfer of Harvard Medical (quoted in the *NY Times*, July 4), states that homocysteine "is in the same league as cholesterol" as a risk factor for heart disease and strokes. Interest in folic acid is now surging. Scientists are taking it seriously. Vitamin B6 anyone?

* *

I was amazed to see a full-page spread on custom Harley Davidson motorcycles in the Sunday magazine section of the *NY Times* (July 2). Harley built its reputation on being a 100% American rebel machine (ridden by those bad Hell's Angels). But suddenly Harley has become respectable, now ridden by doctors, lawyers and

CEOs. Did Harley make a mistake catering to the general public, the squares? I almost think they did, but let's face it -- there isn't enough volume in selling bikes only to Hell's Angels and outlaws. But the ultimate horror -- it turns out that since 1975 Show (a subsidiary of Honda) has built the front forks for Harley motorcycles. And all this time I thought every Harley bike was 100% patriotic "American Iron."

* *

Daria, my oldest daughter, has just given birth to ta ta, the first new girl in the family (three boys have arrived so far and another boy's on the way). The new young lady's name is Nina Anastasia Doering, and she was born big -- 8 pounds, 15 ounces. My 17-year old son, Ryan, is six one and still growing, and my youngest daughter, 14-year old Lauren, is five nine and growing. Guess they're just making 'em big these days.

* *

More thoughts on NYC. My favorite places are all gone or off limits. Growing up in NYC I loved to go to 52nd Street where five or six jazz spots nightly offered the greatest jazz musicians of the day -- from Billy Holiday to Coleman Hawkins. Alas, 52nd Street is just another street today, no clubs, just garbage bags and, well, nothing. Then I used to love walking down Broadway -- past Jack Dempsey's (with Dempsey standing out front), past the great spaghetti place on 44th Street (big bowl of spaghetti for a quarter, with a meatball 35 cents), past the Paramount Theater with its marvelous 75 cent until 12PM movies and shows, past that great hang-out, the Astor Hotel, past the fascinating sleaze of 42nd Street with its five cent malted and its naughty all-night theaters -- all gone, all memories. What's coming up? Boring new modern buildings, hype, more (ugh) Disney. Ah, I loved going up to Harlem and seeing the night life, the fabulous all-night jam sessions at Minton's, Al Green's restaurant were I would buy a plate of great barbecued spare ribs for 35 cents, the exotic clothes stores (aimed at blacks) on 125th Street. Of course, you can't go to Harlem any longer, not if you want to get back whole. Ah well, the NYC of my youth is gone, and I'm not enamored with the new one where the biggest attraction for me is the museums (which are now crowded) and the restaurants which are also crowded and expensive.

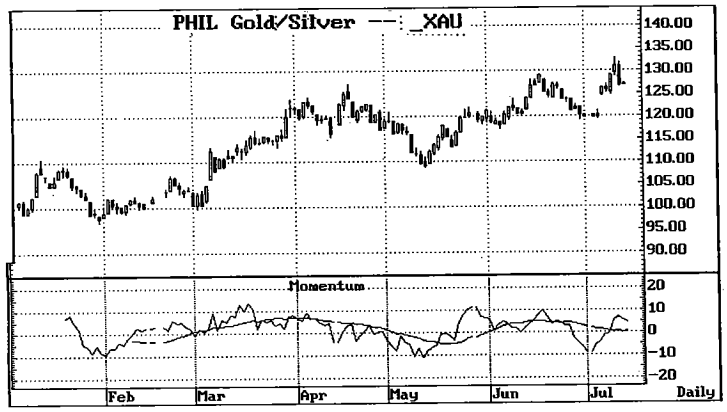
GOLD: A few interesting developments in gold. First -- we watch the "Commitment of Traders" here at this office. These are the statistics showing the positions of the big factors (the Commercials), as well as the large traders and the small traders. The large users (the Commercials) are the ones who tend to *lead* the market. Therefore, what the Commercials do always interests us.

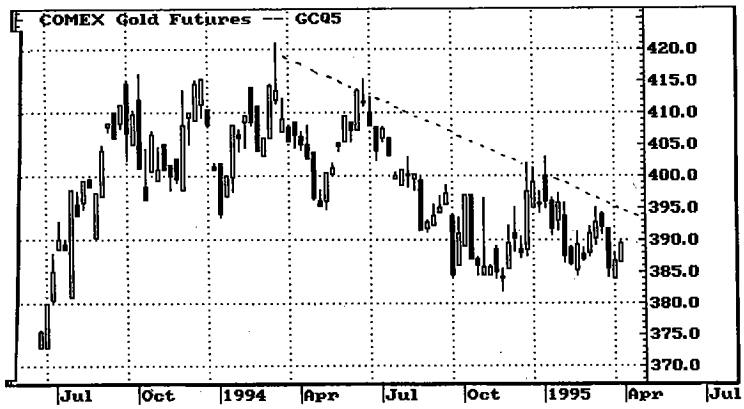
The July 3 Commitment of Traders shows that Commercials added 14,557 contracts to their total gold positions while reducing their short gold positions by 23,379. This constitutes a significant rise in the Commercial's bullishness towards gold. I might add that at the same time, small traders (who tend to be the most wrong group) reduced their long gold positions substantially while adding to their short gold positions.

On July 12 we saw a significant "pop" in gold, but more significantly, the XAU silver/gold average broke out above 130 (see chart). As has been the case all along, the next day saw gold and XAU sell off as traders complained that "there's just no real follow-through on the upside."

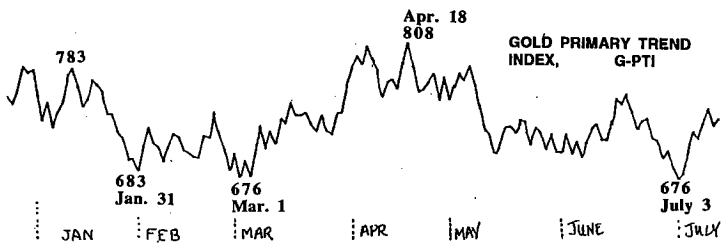
I'm including a chart of the Gold/Silver Average (XAU), and here we do see a series of higher peaks and higher lows. The formation is bullish, even though the momentum line at bottom of the chart is not particularly encouraging.

A second chart shows gold, weekly. In early April the August gold contract pushed briefly above 400, then immediately fell back. It's obvious that 400 offers formidable resistance for gold. It's equally obvious that despite the wishes of the Fed, gold does not want to decline below 380. You undoubtedly saw that interesting movie, "The Crying Game." Well gold-philes are living its counterpart in the financial world -- they call it "The Waiting Game."





Meanwhile my Gold-Primary Trend Index (G-PTI), has established a double bottom at 676 (the March low and the July low). The rally last week puts the G-PTI back in "no man's land" or back in the trading range where it has fluctuated for the past (would you believe?) eight months.



LATE NOTES: Amid an increasing number of bullish predictions from well-known analysts, the market appears to be a bit "tired." But the evidence of real technical trouble has not yet appeared, at least not on my charts and data. If the technical balance in the market starts to weaken, we'll see it in the action of my PTI. But so far, the PTI has continued to generate bullish figures.

NEXT MAILING: Aug. 2, 1995

Poll: Market investors in for long haul

By David Craig
USA TODAY

▶ Options for bullish times, 1-3B

The typical investor — facing a bullish stock market — isn't looking for a quick killing or afraid of a crash, a USA TODAY/Gallup Poll finds.

Instead, nearly all are focusing on long-term goals like retirement, say the 402 investors polled last week as the Dow Jones industrial average held its ground over the 4700 mark, propelling its 1995 gain to 23%.

The poll results provide a unique profile of U.S. investors. Even market experts were surprised by key findings that show investors are far more market-savvy than believed:

▶ 92% say they are long-term investors aiming for a comfortable retirement.

▶ 90% haven't or don't plan to cash in on big stock gains.

▶ 76% wouldn't sell stocks even if stocks plunged.

▶ 49% would use a selloff to bargain-hunt for more stocks.

"It's a remarkably sensible commitment," says First Albany strategist Hugh Johnson.

The findings underscore lessons learned from the Oct. 19, 1987 crash, when the Dow sank 508 points, or 23%, to 1738. Friday's close: 4709, up 171%.

Typical is Rafael Infante, 35, of Doylestown, Pa., an investor since 1985. "My philosophy is buy and hold," he says.

Such long-term sentiment is good for the market and considered vital to its health as investors continue to pour money into stocks and stock funds.

"This is a very positive poll," says strategist Alfred Goldman at A.G. Edwards & Sons. "I'm taking out a second mortgage and buying more stock."

The news regarding stocks has become so blatantly bullish that it's absolutely embarrassing to veteran investors. This headline is from the front page of the July 17 *USA Today*. The article states: "92% say they are long-term investors, aiming for a comfortable retirement. 90% haven't or don't plant to cash in on big stock gains. 76% wouldn't sell stocks even if stocks plunged. 49% would use a sell-off to bargain hunt for more stocks." The article continues, "Such long-term sentiment is good for the market and considered vital to its health as investors continue to pour money into stocks and bonds." **Russell comment**: In 45 years of dealing with markets, I can't ever remember seeing such arrogance. It's breathtaking.